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S E C R E T SECTION 01 OF 03 BAGHDAD 000366

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SUBJECT: IRANIAN ECONOMIC ACTIVITY IN BASRA

REF: BAGHDAD 00343 - SHALAMSHA PORT OF ENTRY

Classified By: Senior Advisor Gordon Gray for reasons 1.4 (a, b, c, d, e, and g).

Summary

11. (S) Contacts during a visit to Basra by Senior Advisor Gordon Gray February 1-3 noted that Iranian soft power influence on the economy of the province takes several forms: trade, investment, financing of medical care for prominent Iraqi clerics, subsidies for Iranian goods, lending to benefit Iranian companies, and (reportedly) front companies for Iranian intelligence activities. While some of these activities are commercial responses to genuine business opportunities, others point to an Iranian government effort to increase its economic and political influence in Basra. End summary.

Basra Trade is Robust

12. (C) Basra,s trade with neighboring countries is robust. The biggest demand currently is for foodstuffs, ceramic, steel and construction materials, which are mostly coming from neighbors Iran and Kuwait. Some clothing and plastic goods are imported from China. Other goods coming from Iran include carpets, household goods, appliances (e.g., air conditioners and washing machines), cars and minivans. Our contacts noted that while Iranian goods dominated several months ago, there are now more diverse sources from around the region and Asia.

13. (SBU) Viewing a busy market in Basra city on February 3, it was clear that there was a variety of construction materials, consumer goods, foodstuffs including canned soft drinks, and household items from regional neighbors and Asia. During a chat with a local merchant who sold lighting fixtures and was also involved in construction, he noted that business has increased in the last three-four months, but complained that it took nearly four months to import items from neighbors such as U.A.E. His small showroom was full of upscale glass ceiling lights and chandeliers, which he is selling to Basrawi businesses and residents building new offices and homes after years of conflict in the city. His willingness to invest in luxury goods and eagerness to expand his trade reflect an optimism we noted throughout our meetings in Basra.

14. (C) It is difficult to obtain any accurate trade statistics on Iran-Iraq trade as Iraq,s statistics agency, COSIT, is not yet in a position to gather data consistently across provinces. In addition, Iraq does not use the international-standard Automated System for Customs Data (ASYCUDA), which Iran does employ. Judging by the inadequate

customs procedures and equipment at the Shalamsha land border port-of-entry (reftel) in Basra between Iran and Iraq, it is easy to understand the difficulties in accurately gauging the scope of Iran-Iraq trade. Professor Shabaan Sadam Amara at the University of Basra, a PhD economist, estimated there was USD five billion in cross-border trade in 2008, with China as the largest trading partner, Turkey second and Iran third. Other analysts estimate that the percentage of imports from Iran compared to overall imports is decreasing as Iraq's other trading partners increase their exports faster. According to the International Monetary Fund, Iran's gross domestic product (GDP) in 2007 was four times that of Iraq.

Cheap Iranian Tomatoes

15. (C) While many Basrawis have a fairly good income, the agricultural sector of the province is still in bad shape. Contacts complained that the Government of Iraq is not subsidizing the cost of inputs (seed, equipment, fertilizer, netting to cover plants) adequately to compete with tomatoes from Iran. Cheaper Iranian tomatoes had flooded the market, harming local producers. There was considerable resentment from some contacts who believe that the Iranian government is subsidizing all types of exports to Iraq, facilitating the customs process and using other influence, while at the same time neither the central Iraqi government nor the Basra provincial government were assisting Iraqi producers adequately.

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Iranian Companies Receiving
Iranian Government Support

16. (S) Several contacts we met with referred to Iranian front companies. Al Sha,her, an Iranian company for general contracting, is full of Iranian intelligence members according to Abd Al Adeem, a local Sunni politician fixated on Iranian influence in Basra. Abdul Al-Hafiz Al,Afi of the Basra Business Center told us that Iranian front companies are not easy to see even for Basrawis, but those that are in operation do very little legal business. Dr. Haider Ali Fadhal of the Basra Investment Commission said that Iranian government support for Iranian business activity in Basra was such that Iran was starting to control some local industry and market segments. Professor Shabaan told us that nearly every aspect of the Iranian private sector in Basra has ties to the Government of Iran. As a condition of low-interest loans of nearly USD one billion, Iran required projects to be executed by Iranian companies, Shabaan stated. In addition to consumer goods, Iran was also interested in investing in infrastructure such as transportation, oil and electricity projects and other aspects of reconstruction.

17. (C) Khalid Abultiman, an expatriate Basrawi businessman living, until recently, in Dubai and head organizer of an upcoming Trade Exhibition and Conference, told us that he had 57 Iranian companies interested in his trade show. In his view, the Government of Iran was paying for space and lodging for Iranian companies. Among these were companies involved in construction, information technology, and other diversified sectors involved in rebuilding. Khalid said he would require all companies to provide a letter with background information. (Comment: We doubt that Khalid will actually screen any companies or prevent any from participation. End comment.)

Pilgrims, Tourism and Cultural Exchanges

18. (C) Iranian pilgrims make up 90 percent of the passenger traffic into Basra from Iran at the Shalamsha land border crossing. The majority travel to Iraq's Shi'a holy sites in Najaf and Karbala: a pilgrim package to Iraq costs about USD 300 (see reftel). Iran is also encouraging Iraqis to travel to Iran by offering free visas for 20-30 days. Contacts told us of the Iranian government funding a visit by 60 instructors from the universities of Basra and Nasariyah, mainly history and art departments, in December 2008. At the end of the visit, they had a surprise meeting with Ayatollah Akbar Hashemi Rafsanjani, the former President and influential cleric, who told them he wanted to continue good relations with the universities, and that the United States is the biggest enemy of Islam.

Other Iran Soft Power

19. (S) Of the 550 non-governmental organizations (NGOs) in Basra, the Islamic Supreme Council in Iraq (ISCI) was supporting 15, according to Abd Al Adeem. He also said that Iran was influencing the Ministry of Social Welfare, so that only those non-governmental organizations (NGOs) that were subject to Iranian influence would be granted licenses. Dr. Haider Ali Fadhal of the Basra Investment Commission also said that Iran paid for medical care for distinguished clerics in Iraq to gain influence. In his view, Iran seeks influence in a variety of ways: business, trading in Iranian goods, agriculture, culture, education, zero or low interest loans to merchants and, at the central government level, loans to merchants and, at the central government level, cultivating relationships with several key Ministries such as the Ministry of Housing and Construction and the Ministry of the Interior. He added that Iran supported a housing project in Basra last year, with 5,000 units, competitively priced, including utilities and internet.

Iranian Consulate Very Active in Basra

10. (S) Several contacts noted that the Iranian Consulate in Basra was very active. The head of the consulate, Naseer Baghban, is working to overcome negative perceptions of Iran stemming from its support for militias, as well as memories of the Iran-Iraq war. While Iranian activity is robust, it is clear that there is much bitterness and resentment to overcome before Basrawis will view Iranian influence as beneficial. Abd Al Adeem told us that the Iranians are

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bloodsuckers and would steal the air over Iraq if they could. While many Basrawis express concern about Iranian economic influence and what they perceive as unfair trading practices, many are simply reacting with fear of the unknown: free market competition.

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